

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 INRE-00 SSO-00 NSCE-00 USIE-00  
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 EPG-02  
DODE-00 EB-07 FEAE-00 FPC-01 H-01 INR-07 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-04 OES-07 SP-02  
SS-15 STR-04 TRSE-00 ACDA-07 OPIC-03 /096 W  
-----171832Z 044103 /42

O 171506Z MAY 77

FM AMEMBASSY MONROVIA

TO SECSTATE WASHDC IMMEDIATE 4760

C O N F I D E N T I A L SECTION 1 OF 2 MONROVIA 3430

E.O. 11652 GDS

TAGS: EINV, ENRG, LI

SUBJECT: GOL REJECTS ASSERTIONS BY SUN AND DYNALECTRON OF  
ALLEGED EXPROPRIATION

REF: MONROVIA 3419

1. GOL MINISTER OF FINANCE PHILLIPS HAS PROVIDED AMBASSADOR WITH  
COPY OF LETTER WHICH PHILLIPS HAS WRITTEN TO SUN TRADING & MARINE  
TRANSPORT INC. (STMT) AND DYNALECTRON CORPORATION (DYN) IN REPLY  
TO STMT'S LETTER MENTIONED IN REFTEL. FULL TEXT OF PHILLIPS' LETTER  
IS AS FOLLOWS:

QUOTE: I HAVE RECEIVED YOUR LETTER TELEX ADVISING THAT STMT AND DYN  
CONSIDER THEIR "EQUITY AND DEBT INTERESTS" IN LRC TO HAVE BEEN  
EXPROPRIATED BY GOVERNMENT AND ARE THEREFORE SEVERING ALL TIES,  
ASIDE FROM CERTAIN CONTRACTUAL DEBTS DUE THEM, WITH LRC. THE  
GOVERNMENT CATEGORICALLY DENIES AND REJECTS OUTRIGHT THE ASSERTIONS  
MADE THEREIN WITH RESPECT TO AN ALLEGED EXPROPRIATION BY  
GOVERNMENT.

THE RECENT CONVERSTATION BETWEEN MR. GLAZIER AND MYSELF TO WHICH YOU  
REFER DOES NOT, AS YOU ASSERT, CONFIRM IN ANY WAY THE ALLEGATIONS  
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THAT THE GOVERNEMTN HAS EXPROPRIATED THE INTERESTS OF STMT AND DYN.  
ON THAT OCCASION, I TOLD MR. GLAZIER THAT THE GOVERNMENT WAS NO  
LONGER INTERESTED IN BUYING THE SUN OIL INTEREST IN LRC. INDEED,  
THE GOVERNMENT DID NOT WISH TO HAVE ANY OWNERSHIP INTEREST IN LRC.  
RATHER, THE GOVERNEMTN WAS PREPARED TO PURCHASE THE REFINERY ITSELF,  
THAT IS, THE PHYSICAL PLANT, AND WOULD SUBMIT AN OFFER SHORTLY. AT  
THAT TIME I ALSO MENTIONED THAT SHOULD THE SALE BE AGREED TO,

MINORITY SHAREHOLDERS IN LRC WOULD BE ALLOWED TO PARTICIPATE IN ANY NEW VENTURE ESTABLISHED TO OWN AND OPERATE THE REFINERY ON A BASIS PROPORTIONATE TO THEIR EQUITY INTEREST IN LRC. I ALSO MADE IT CLEAR THAT A PRICE INCREASE OF 4 CENTS HAD BEEN RECOMMENDED FOR PRESIDENTIAL APPROVAL (IT HAS SINCE BEEN APPROVED), AND THAT THIS SHOULD ALLEVIATE THE DIFFICULTIES FACING LRC SO THAT WERE OUR OFFER UNACCEPTABLE TO THE SHAREHOLDERS, LRC COULD CONTINUE AS OWNER AND OPERATOR OF THE REFINERY IN KEEPING WITH THE CONCESSION AGREEMENT. ALL OF THIS WAS LATER CONFIRMED IN MY LETTER TO YOU TO WHICH YOU ALSO REFER.

I WOULD POINT OUT THE FOLLOWING:

(1) THE GOVERNMENT HAS NEVER ASSERTED, NOR DOES IT ASSERT NOW, TITLE TO OR ANY INTEREST IN LRC OR THE REFINERY ITSELF NOR TAKEN ANY ACTION WHICH WOULD IMPLY ANY CLAIM OR RIGHT TO TITLE. THE GOVERNMENT REGARDS THIS UNWARRANTED CHARGE BY STMT AND DYN THAT THERE HAS BEEN AN EXPROPRIATION OF THEIR INTERESTS TO BE NO MORE THAN A TRANSPARENT ATTEMPT TO USE CORPORATE DIFFICULTIES OF LRC DUE TO POOR PLANT DESIGN, INADEQUATE MANAGEMENT AND AN EXTREMELY UNFAVORABLE DEBT TO EQUITY RATIO AS A MEANS OF OBTAINING UNITED STATES TAX BENEFITS BY ABANDONING THEIR INVESTMENT UNDER A FALSE CHARGE OF EXPROPRIATION BY THE LIBERIAN GOVERNMENT.

(2) THE GOVERNMENT'S INTEREST IN PURCHASING THE REFINERY AROSE ONLY IN ORDER TO ASSURE THE CONTINUATION OF A VITALLY ESSENTIAL NATIONAL SERVICE AFTER STMT HAD MADE CLEAR ITS DETERMINATION TO DIVEST ITSELF OF ANY OWNERSHIP INTEREST IN LRC. THE GROWING DISINTEREST OF STMT HAS BEEN REFLECTED IN INCREASINGLY MORE INADEQUATE MAINTENANCE, A FACT DOCUMENTED BY INDEPENDENT CONSULTANTS. THE GOVERNMENT ALSO BELIEVES CONFIDENTIAL

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THAT STMT'S LACK OF CONCERN WAS, DIRECTLY OR INDIRECTLY, SUBSTANTIALLY CONTRIBUTORY TO THE SUCCESSION OF BREAKDOWNS DURING THE LATTER MONTHS OF 1976, CULMINATING IN THE FIRE ON CHRISTMAS DAY AT A TIME WHEN STMT AS MANAGEMENT AGENT FOR LRC, HAD ALLOWED THE NATION'S TOTAL GASOLINE SUPPLY TO DIMINISH TO TWO DAYS INVENTORY WITHOUT HAVING TAKEN ANY COMPENSATING ACTION OR GIVERN TIMELY NOTICE TO GOVERNMENT.

(3) THE GOVERNMENT HAS NO LEGAL RIGHT, NOR HAS IT EVER ASSERTED ANY SUCH RIGHT, TO PREVENT THE SHAREHOLDERS OF LRC FROM SELLING THEIR SHARES TO WHOMEVER THEY WISH. IF ANY POTENTIAL PURCHASER UNILATERALLY IMPOSED A CONDITION OF GOVERNMENT APPROVAL OF THE SALE, THAT WAS A MATTER BETWEEN SUN AND SUCH OTHER PARTY.

(4) THE OFFER BY GOVERNMENT TO PURCHASE LRC'S ASSETS WAS MERELY A COUNTER-OFFER TO STMT'S OFFER TO SELL ITS EQUITY INTEREST TO GOVERNMENT. THE FIRST OFFER MADE BY STMT WAS TO SELL ITS SHARES AND DEBT INTEREST FOR A SUBSTANTIAL DISCOUNT BELOW ITS OWN ASSESSMENT OF

THE CURRENT NET BOOK VALUE OF ITS INTEREST OF 7 MILLION (SEE LETTER OF JANUARY 28, 1977, AND MINUTES COMPILED BY STMT OF THE MEETING BETWEEN GOVERNEMTN AND STMT ON THAT DATE). SUBSEQUENTLY, STMT MADE A NEW OFFER OF \$9 MILLION FOR ITS INTEREST IN LRC, (SEE LETTER DATED APRIL 6, 1977). THE GOVERNEMENT'S COUNTEROFFER WAS THEREFORE MERELY IN IMPLEMENTATION OF THE NEGOTIATION PROCESS. STMT, AND THE OTHER SHAREHOLDERS, WERE FREE TO MAKE OR SOLICIT ANOTHER OFFER OR REJECT THAT MADE BY THE GOVERNMENT, AND RETAIN THEREBY THEIR INTERESTES IN LRC, AND TITLE TO ITS ASSETS. THESE FACTS AS WELL AS LRC'S RIGHT TO OPERATE THE REFINERY IN KEEPING WITH THE CONCESSION AGREEMENT WERE EXPLICITLY EMPHASIZED IN OUR LETTER MAKING A COUNTER-OFFER.

(5) LRC, BY ITS LETTER OF DECEMBER 30, 1976, ASSERTED THAT IT WAS UNDER NO OLBIGATION TO IMPORT PRODUCTS NEEDED BY THE DOMESTIC ECONOMY, BECAUSE THE FIRE REPRESENTED A SITUATION OF FORCE MAJEURE WHICH SUSPENDED LRC'S OBLIGATIONS THEREUNDER. THE GOVERNMENT DID NOT  
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THIS ASSERTION. THEREFORE, ANY DECISION TAKEN BY LRC TO IMPORT AND SELL PRODUCTS ALLEGEDLY AT LESS THAN COST WAS PURELY VOLUNTARY, WITHOUT COMPULSION, AND MUST BE CONSIDERED AS NO MORE THAN A CORPORATE OR MANAGEMENT DECISION. EQUALLY SO, GOVERNEMTN HAD A RIGHT, UNDER THE CIRCUMSTANCES OF FORCE MAJEURE, TO UNDERTAKE ANY NECESSARY MEASURES TO ENSURE AN ADEQUATE SUPPLY OF PRODUCTS TO THE NATION, INCLUDING THE DIRECT IMPORTATION OF SUCH PRODUCTS BY GOVERNMENT PARTICULARLY IN THE CURRENT SITUATION WHEN LRC HAS INDICATED ITS INABILITY TO CONTINUE TO DO SO. DESPITE THE ABOVE, THE RCENT PRICE INCREASE, WHICH WE STATED IN OUR LETTER OF OFFER TO YOU, WOULD APPLY REGARDLESS OF YOUR RESPONSE, IS CALCULATED ON A BASIS SUCH THAT LRC WILL RECOVER RECENT LOSSES WITHIN TWELVE MONTHS. DELAYS IN GRANTING THIS INCREASE WERE DUE, IN GREATEST MEASURE, TO LRC WHICH DID NOT PROMPTLY SUPPLY THE REQUISITE INFORMATION AND COMPUTATIONS UPON WHICH ITS REQUESTED PRICE INCREASES WERE BASED, AND SUBSEQUENTLY

MADE FUNDAMENTAL ARITHMETIC ERRORS IN ITS CALCULATIONS REQUIRING A RESUBMISSION.

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INFO OCT-01 ISO-00 INRE-00 SSO-00 NSCE-00 USIE-00  
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 EPG-02  
DODE-00 EB-07 FEAE-00 FPC-01 H-01 INR-07 INT-05  
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-----171831Z 043289 /42

O 171506Z MAY 77

FM AMEMBASSY MONROVIA

TO SECSTATE WASHDC IMMEDIATE 4761

C O N F I D E N T I A L SECSTION 2 OF 2 MONROVIA 3430

(6) LRC'S MARGIN WAS REDUCED FROM 5 CENTS PER GALLON BACK TO 4 CENTS PER GALLON IN MAY OF 1976 BECAUSE THE CONDITION UNDER WHICH THE INCREASE IN MARGIN HAD BEEN GRANTED WERE NOT MET. LRC HAD REQUESTED A MARGIN INCREASE IN ORDER TO FINANCE CERTAIN CAPITAL INVESTMENTS, AMONG WHICH WAS THE EXPANSION OF TANKAGE CAPACITY. IN FACT, SUN FAILED TO COMMENCE ACTIVITIES REQUIRED TO PERMIT IT TO MEET ITS COMMITMENTS TO EXPANSION OF TANKAGE FACILITIES OR, INDEED, TO UNDERTAKE ANY SIGNIFICANT OR LONG TERM INVESTMENT PROJECTS. THE MARGIN INCREASE THUS APPEARED TO BE MERELY A DEVICE WHEREBY STMT COULD APPRECIATE THE VALUE OF ITS SHARES IN LRC, WHICH IT HAD ALREADY BEGUN SEEKING TO DISPOSE OF.

(7) ALTHOUGH THE GOVERNMENT, UNDER THE CONCESSION AGREEMENT, HAS THE RIGHT TO CONTROL PRICES, THE GOVERNMENT HAS BEEN MOST EQUITABLE AND COOPERATIVE IN EVALUATING EACH REQUEST FOR A PRICE INCREASE. MOREOVER, WHENEVER DELAYS DUE TO COMPUTATION DIFFICULTIES HAVE ARISEN, THE GOVERNMENT HAS ALLOWED LRC TO RECOVER THE LOSSES INCURRED DURING THAT PERIOD BY ADJUSTING PRESENT AND FUTURE PRICES ACCORDINGLY. EVEN THE AMOUNT OF THE MARGIN ALLOWED LRC HAS BEEN ALLOWED TO RISE. AS THE GOVERNMENT HAS ALREADY DEMONSTRATED, IT COULD RISE AGAIN ON A SHOWING OF GENUINE CORPORATE NEED, PARTICULARLY WITH RESPECT TO REQUIREMENTS FOR REINVESTMENT IN PLANT AND TANKAGE CAPACITY.  
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(8) THE GOVERNMENT DOES NOT CONCEDE THAT THE FIRE AT THE REFINERY WAS OF "UNKNOWN ORIGIN" AS CERTAIN PRELIMINARY INDICATIONS POINT TO INEFFICIENT MANAGEMENT AND DERELICTION OF ITS RESPONSIBILITIES AS MANAGERS ON THE PART OF STMT.

(9) ALTHOUGH NOT ENTIRELY CLEAR AS TO THE FULL IMPLICATIONS OF STMT'S AND DYN'S WITHDRAWAL OF MANAGEMENT AND OPERATIONAL RESPONSIBILITY FOR LRC, THE GOVERNMENT CONTINUES TO HOLD LRC RESPONSIBLE FOR ALL ITS OBLIGATIONS UNDER THE CONCESSION AGREEMENT, INCLUDING THE OBLIGATION PROMPTLY TO CORRECT THE CONDITIONS

GIVING RISE TO THE FORCE MAJEUR, AS WELL AS THE OBLIGATIONS INCURRED UNDER THE LETTER OF AGREEMENT BETWEEN LRC AND GOVERNMENT DATED APRIL 26, 1977 TO STORE AND DISTRIBUTE PRODUCT ON BEHALF OF GOVERNMENT AT A FEE PAYABLE TO LRC OF 4 CENTS PER GALLON. IN THE EVENT STMT AS MAJORITY SHAREHOLDER SHOULD DIRECT OR CAUSE THE MANAGEMENT OF LRC TO ABANDON ITS CONCESSIONARY AND OTHER LEGAL OBLIGATIONS TO GOVERNMENT, AND WE FAIL TO ARRIVE AT MUTUALLY ACCEPTABLE TERMS FOR THE SALE OF THE REFINERY, THE GOVERNMENT WILL HAVE NO CHOICE BUT TO CONSIDER TAKING APPROPRIATE MEASURES TO SAFEGUARD THE INTEREST OF THE NATION WHICH COULD INCLUDE CONSTRUCTING ITS OWN REFINERY. JAMES T. PHILLIPS, JR., MINISTER OF FINANCE, REPUBLIC OF LIBERIA UNQUOTE.

2. EMBASSY IS PLANNING TO SUBMIT ANALYSIS OF THE LRC SITUATION IN AIRGRAM.  
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## Message Attributes

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